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UNITED CIGAR-WHELAN STORES CORPORATION

ANNUAL REPORT

FOR THE YEAR ENDED

DECEMBER 31, 1942

BOARD OF DIRECTORS

David G. Baird	Houlder Hudgins
Walter G. Baumhogger	Edward A. LeRoy, Jr.
Michel A. Bouvier	Walter S. Mack, Jr.
Paul Dudley Childs	Lester G. Ott

Dallas S. Townsend

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OFFICERS

Walter S. Mack, Jr.	*Chairman of the Board*
Walter G. Baumhogger	*President and Chairman of the Executive Committee*
Lester G. Ott	*Vice President*
Edward E. Cody	*Vice President and Treasurer*
Michel A. Bouvier	*Vice President*
Frank M. Head	*Vice President*
John D. Bruce	*Vice President*
Herbert P. Luce	*Vice President*
Harry Rubenoff	*Secretary and General Counsel*
Paul Olsen	*Assistant Treasurer*
Harold W. Jacobsen	*Assistant Secretary*

TRANSFER AGENTS

Preferred and Common Stock	Registrar and Transfer Company, New York, N. Y.
Common Stock	Registrar and Transfer Company, Jersey City, N. J.
Common Stock	The Trusts and Guarantee Company, Limited, Toronto, Canada

REGISTRARS

Preferred Stock	The Chase National Bank of the City of New York
Common Stock	The Chase National Bank of the City of New York
Common Stock	Commercial Trust Company of New Jersey, Jersey City, N. J.
Common Stock	The Trusts and Guarantee Company, Limited, Toronto, Canada

The Common Stock is listed on the New York Curb and Toronto Stock Exchanges
The Five Per Cent Sinking Fund Bonds, due October 1, 1952,
are listed on the New York Stock Exchange

To the Stockholders of

UNITED CIGAR-WHELAN STORES CORPORATION:

This report of your Corporation for the year ended December 31, 1942 includes the Consolidated Balance Sheet as of December 31, 1942 and Consolidated Statements of Profit and Loss and Surplus for the year, certified by Messrs. Price, Waterhouse & Co., independent public accountants.

Total current assets at the end of the year amounted to $10,516,468.49, and total current liabilities were $4,107,096.00. Working capital at December 31, 1942 amounted, therefore, to $6,409,372.49; an increase of $1,422,854.00 during the year 1942.

Net Sales for the year ended December 31, 1942 amounted to $57,196,-602.11—an increase of 14.33% over the previous year.

PROFIT transferred to EARNED SURPLUS for the years ended December 31, 1942 and 1941 and the balance in earned surplus at the close of each year were as follows:

	1942	*1941*
PROFIT transferred to EARNED SURPLUS	$1,075,146.12	$400,636.12
EARNED SURPLUS since July 1, 1939 at close of year	1,635,030.60	559,884.48

PROFIT of $1,075,146.12 for the year 1942, as shown above, is after depreciation and amortization, interest on bonds, loss on disposition of certain parcels of real estate not necessary to the operation of the business, provision of $100,000.00 for contingencies and provision for estimated taxes on income.

Provision for normal Federal income tax and surtax is based on estimated taxable net income. No provision has been made for excess profits taxes, inasmuch as the excess profits credit based on invested capital, plus unused excess profits credits of preceding years, exceeds the estimated excess profits net income.

Pursuant to the by-laws of the Corporation, the annual meeting of stockholders will be held on August 25, 1943. It is contemplated that the notice of such annual meeting, together with the proxy statement and form of proxy, will be sent to stockholders on or about July 22, 1943.

Although your Corporation is manifestly not a "war industry", it nevertheless makes important contributions to the economy of the United States and to the war effort. The most important of these contributions are as follows:

(1) In 1942 the Corporation, through its many stores, was extremely active as an agent of the Treasury Department in the selling of War Stamps to its customers. As a consequence, in excess of $2,200,000 in War Bonds and Stamps were sold by the Corporation to customers and employees. Most of these sales were made in the last half of the year. As a result of its vigorous and productive efforts in this respect, the Corporation has been favored with numerous expressions of appreciation from officials of the Treasury Department and has received, also, a citation from the Secretary of the Treasury. As its goal for 1943, in the sale of War Bonds and Stamps, the Corporation has established a quota of $4,000,000—which it hopes to exceed.

(2) In various forms of income, social security, sales, excise, floor stock, and other taxes, local, State and Federal treasuries benefited in an amount in excess of $15,000,000 as a result of the Corporation's operations. Part of this amount was paid direct, and part of it was absorbed as excise taxes in cost of merchandise. Inasmuch as dollars, in addition to armament, are needed to win the war, your Corporation believes, therefore, that it occupies a position of importance in the vitally necessary all-out war effort.

(3) Through its drug stores your Corporation is able to do its share in helping to maintain public health standards. As is well known, there is a great shortage of doctors for civilian service — and this shortage will become more acute the longer the war lasts. Inevitably, therefore, civilians must depend more and more upon self-medication — and by and large self-medication can be dispensed properly only through drug stores. When one considers the fact that more people are working than ever before — that they are working odd hours and long hours — that the average age of industrial employees is rising — that many women are working at jobs for which their physiques and previous experience does not entirely fit them — that there is a shortage of transportation, and consequently buses, trolleys, trains, and other public conveyances are over-crowded — that the shortage in certain food stuffs is causing changes in dietary habits — that the shortage of fuel oil, especially in the eastern states, will unquestionably affect the health of many people — that

opportunities for relaxation have been lessened — and that the civilian population, as a whole, is living under great strain — it becomes apparent how important a factor drug stores are in the "Battle of the Home Front." You are assured that your Management will do everything within its power to maintain its drug stores in such condition that a satisfactory self-medication service can be provided for civilians during the war.

* * * *

Your Corporation faces many new problems in 1943 — as well as a further aggravation of the problems which were met in 1942. Its most serious problems are shortages of manpower and shortages of merchandise. However, the Corporation handles chiefly the day-by-day necessities which people will continue to require, even in wartimes. It therefore faces the future with a confidence that its well-trained and resourceful organization will be able, without in any way impeding the all-important all-out war effort, to keep its stores reasonably well supplied with goods and services.

It is the opinion of your Management that the postwar economy of the United States must be geared to the production, distribution, and consumption of tremendous quantities of consumer goods, and that unless the machinery for the distribution of such quantities of consumer goods is kept in reasonably good condition so that immediately after the war it can go into high gear again, the postwar economy of the United States will be seriously and adversely affected. Your Management and its organization is therefore dedicated to the task of doing everything within its power to keep its portion of this important distribution machinery in as good shape as is possible under the circumstances.

The Management takes this opportunity to express its deep appreciation to the employees who, in the face of great difficulties in 1942, did such excellent work.

Six hundred sixty-five (665) of our employees are in the Armed Forces. It would be impossible for us to adequately express our appreciation to them. We look forward to the time when they shall return and resume their former occupations in our Corporation.

Very truly yours,

WALTER G. BAUMHOGGER,

President.

March 18, 1943.

UNITED CIGAR-WHELA

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CONSOLIDATED BALANCE

(See "Notes to Consoli

ASSETS

Current assets:			
Cash in banks, in transit and on hand		$1,633,483.95	
Accounts receivable	$ 741,972.61		
Less—Reserve for doubtful accounts	19,098.06	722,874.55	
Merchandise inventories at cost or market whichever is lower		7,557,934.99	
Merchandise inventories with agents		602,175.00	
Total current assets			$10,516,468.49
Cash deposited with Sinking Fund Trustee for retirement of bonds			15,258.64
Investments:			
Securities deposited under lease agreements, at cost		$ 22,899.11	
Other securities at or below cost		54,601.61	
Mortgages receivable, less reserve		42,000.00	
			119,500.72
Fixed assets:			
Real estate owned in fee, at cost or less	$ 880,594.61		
Less—Reserve for depreciation on buildings	15,272.00	$ 865,322.61	
Furniture, fixtures and equipment (Note A)	$4,053,673.24		
Less—Reserve for depreciation	2,494,586.17	1,559,087.07	
Improvements to leaseholds, less amortization		864,419.33	
Construction in progress		43,463.07	
			3,332,292.08
Deferred charges:			
Unexpired insurance premiums		$ 84,214.27	
Prepaid rent and lease deposits		60,403.72	
Prepaid taxes and licenses		94,216.86	
Supplies		141,644.23	
Miscellaneous		31,019.04	
			411,498.12
			$14,395,018.05

STORES CORPORATION

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HEET—DECEMBER 31, 1942

d Financial Statements")

LIABILITIES

Current liabilities:			
Accounts payable		$2,503,120.70	
Accrued taxes		429,485.18	
Accrued interest		35,823.75	
Other accrued liabilities		435,912.14	
Provision for estimated Federal income taxes		542,234.48	
Agents' deposits, etc.		148,019.75	
Real estate mortgage instalments, due within one year		12,500.00	
Total current liabilities			$ 4,107,096.00
Reserve for contingencies			100,000.00
Funded and mortgage debt:			
Five Per Cent Sinking Fund Bonds, due October 1, 1952:			
Issued, less retired	$2,619,500.00		
Less—In treasury	293,600.00	$2,325,900.00	
Real estate mortgage obligations		565,000.00	
			2,890,900.00
Capital stock and surplus:			
Cumulative Five Dollar Preferred Stock (Note B):			
Authorized—67,000 shares without par value (entitled on dissolution or liquidation to, and redeemable at $100 per share and accumulated dividends)			
Issuable under the plan of Reorganization—63,648 shares (excluding 9 shares held in treasury) at stated value of $75 per share (Note C)		$4,773,600.00	
Common stock:			
Authorized—6,000,000 shares of ten cents (10c) par value			
Issuable under the plan of Reorganization—5,709,781 shares (excluding 12,143 shares held in treasury)		570,978.10	
Capital surplus (after deducting $736,444.22, deficit at June 30, 1939)		317,413.35	
Earned surplus since July 1, 1939 (Notes B and D)		1,635,030.60	
			7,297,022.05
			$14,395,018.05

UNITED CIGAR-WHELAN STORES CORPORATION
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1942

(See "Notes to Consolidated Financial Statements")

PROFIT AND LOSS

Store and agency operations:		
Net sales after deducting stamp and sales taxes		$57,196,602.11
Cost of sales		42,292,785.18
		$14,903,816.93
Display advertising, sundry commissions, etc.		1,437,156.39
Gross profit and other store operating income		$16,340,973.32
Store, depot and agency operating and general expenses, before depreciation and amortization		13,863,455.11
Profit from store and agency operations, before depreciation and amortization		$2,477,518.21
Profit from real estate operations, before depreciation and amortization		40,230.89
		$2,517,749.10
Other deductions, less other income:		
Loss on sales of real estate	$ 91,968.47	
Other charges, including lease cancellations and write-offs of unamortized improvements to certain leaseholds	243,424.30	
	$335,392.77	
Other income	48,863.84	286,528.93
		$2,231,220.17
Depreciation and amortization		437,779.05
		$1,793,441.12
Interest on Five Per Cent Sinking Fund Bonds		116,295.00
		$1,677,146.12
Provision for estimated taxes on income:		
Federal normal income tax and surtax (Note E)	$487,000.00	
State income tax	15,000.00	502,000.00
		$1,175,146.12
Provision for contingencies		100,000.00
Profit transferred to earned surplus		$1,075,146.12

EARNED SURPLUS SINCE JULY 1, 1939

Balance, December 31, 1941	$ 559,884.48
Add: Profit for the year ended December 31, 1942 (shown above)	1,075,146.12
Balance, December 31, 1942 (Notes B and D)	$ 1,635,030.60

NOTE: There was no change in Capital Surplus during the year ended December 31, 1942.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A—Furniture, fixtures and equipment include approximately $1,425,000 on which the reserve for depreciation is equal to the asset.

Note B—Cumulative dividends not accrued on the books or declared to December 31, 1942 amounted to $1,723,800.00 or $27.08⅓ per share.

Note C—At December 31, 1942 the excess of the liquidating value of the Cumulative Five Dollar Preferred Stock, including dividend arrears, over the stated value of such stock amounted to $3,315,000.00.

Note D—Under the Corporation's Charter no dividends may be declared, paid or set apart for payment upon the common stock, until dividend arrears on the preferred stock have been declared and paid or set apart for payment. Further reference is made to the Corporation's Mortgage Indenture securing its Five Per Cent Sinking Fund Bonds under the provisions of which, among other things, it is provided that the Corporation may not pay or declare any dividend or make any other distribution in respect of any shares of its stock of any class (other than stock dividends) or apply, or permit any subsidiary to apply, any sum to the purchase or redemption of any shares of any class of stock of the Corporation, except out of consolidated net earnings of the Corporation and its subsidiaries (as consolidated net earnings are defined in said Indenture) subsequent to January 1, 1937. Due to this restriction, it is estimated that approximately $732,000.00 of the earned surplus (which, at December 31, 1942 amounted to $1,635,030.60 and which was accumulated since July 1, 1939) may not be used in the payment of dividends so long as any of the Corporation's bonds are outstanding.

Note E—The provision for normal Federal income tax and surtax is based on estimated taxable net income. No provision has been made for excess profits taxes, inasmuch as the excess profits credit based on invested capital, plus unused excess profits credits of preceding years, exceeds estimated excess profits net income.

PRICE, WATERHOUSE & CO.

56 Pine Street,
New York, March 15, 1943.

To the Board of Directors of

UNITED CIGAR-WHELAN STORES CORPORATION:

We have examined the consolidated balance sheet of United Cigar-Whelan Stores Corporation and its subsidiary companies as of December 31, 1942 and the related consolidated statements of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus present fairly the position of the company and its subsidiary companies at December 31, 1942, and the results of their operations for the year 1942, in conformity with generally accepted accounting principles applied by the companies on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

HOME OFFICE:

215 Fourth Avenue, New York, N. Y.

* * * *

WAREHOUSES:

Bush Terminal, Brooklyn, N. Y.

701 Bryant Street, San Francisco, Cal.

CIGARS
UNITED
DRUGS
WHELAN